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2002 Farm Bill - Dairy Subtitle Summary

The 2002 Farm Bill, technically the Farm Security and Rural Investment Act of 2002 (Act), was signed into law by President George W. Bush on May 13, 2002. This Act represents a change in direction for U.S. federal dairy policy: with deficiency payments a regular monthly occurrence, it puts dairy in the same stance as program crops. The following is a brief summary of some of the dairy provisions of the Act. This newsletter will be providing updates, important information/ deadlines, and contact numbers for dairy producers to help keep everyone better informed. In addition, the Boston Class 1 price will now be listed on page 2, Federal Order and Class 1 prices.

Currently, information on the implementation of the Act can be found on the internet at www.fsa.usda.gov. Questions can be directed to the Farm Services Agency office in Davis, Larry Plumb, at 530-792-5520, or your local county Farm Services Agency office. The Dairy Marketing Branch will be in constant contact with Larry Plumb and will continue to print in this newsletter the latest information as it becomes available.

Milk Price Support Program

- Continues from June 1, 2002 until December 31, 2007
- Covers butter, nonfat dry milk and Cheddar cheese
- Rate is \$9.90 per cwt. @3.67% butterfat (a continuation of current price level)
 - Barrel cheese = \$1.1014 per pound
 - Block cheese = \$1.1314 per pound
 - Butter = \$0.8548 per pound
 - Powder = \$0.9000 per pound
- Allocation of butter and powder purchase price (the "tilt") can be adjusted by the USDA Secretary of Agriculture whenever it tends to meet the objectives of the Secretary.
- Tilt adjustment can occur twice per year

National Dairy Market Loss Payments

- "Secretary shall enter into contracts with producers...."

See **FARM BILL** on Page 3

April Milk Production

Milk production in California for April 2002 totaled 2.93 billion pounds, up 5.4 percent from April 2001. USDA's estimate for U.S. milk production for April 2002 in the 20 major dairy states is 12.5 billion pounds, up 2.9 percent from April 2001. Production per cow in the 20 major states averaged 1,614 pounds for April, which is 43 pounds above April 2001. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	May	June
1	\$13.16	\$12.63
2	\$11.83	\$11.33
3	\$11.67	\$11.17
4a	\$10.23	-----
4b	\$10.23	-----

Federal Order and California Minimum Class 1 Prices

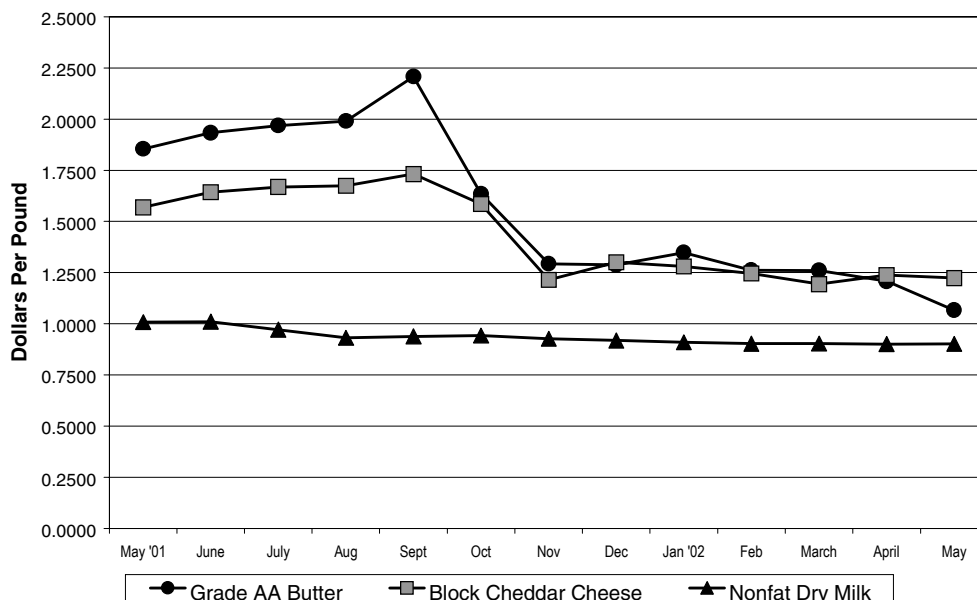
Average Hundredweight Prices

Regions	May	June
Phoenix, Arizona	\$13.61	\$13.38
Southern California	\$13.30	\$12.76
Portland, Oregon	\$13.16	\$12.93
Northern California	\$13.02	\$12.49
Boston (Northeast)	\$14.51	\$14.28

Quota Transfer Summary

For May 2002, 4 dairy producers transferred 6,720 pounds of solids-not-fat (SNF) quota. The quota sales averaged \$474 per pound of SNF (without cows), with an average ratio of 2.47.

Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Prices



Alfalfa Update: May

Northern California: May found Premium and Supreme alfalfa demand moderate with supplies light to moderate. Most producers were just beginning the second cutting when rain moved in and disrupted cutting schedule. One-third of the second cutting in Sacramento valley received some rain. Retail and Stable hay were fully steady as more supplies are entering the marketplace.

Southern California: Weather in both the lower and upper desert areas continued to cause problems for producers trying to put up quality hay. Not much Supreme alfalfa being produced right now. Demand was light as dairies seem reluctant to add to their supplies - waiting for later cuttings. Some hay is moving out of state to help areas having drought problems. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	5/3	5/10	5/17	5/24
Petaluma	\$151-160	\$145-155	\$155-160	-----
North Valley ¹	\$151	\$165-170	\$153-163	\$150-170
South Valley ²	\$158-175	\$155-168	\$150-172	\$155-176
Chino Valley	-----	-----	-----	\$150

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

	April 2002	May 2002
Tons Sold ¹	143,304	184,362
Tons Delivered ²	69,972	87,812

¹ For current or future delivery.

² Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

2002 Farm Bill . . . (Continued from Page 1)

National Dairy Market Loss Payments –

- ◆ Signup period approximately 60 days following enactment (May 13, 2002)
- ◆ Payment is 45% of the difference between \$16.94 and the Boston Class I price
- ◆ Payment is monthly
- ◆ Payment is made from U.S. Treasury funds, not CCC and not USDA
- ◆ Looks like about \$0.75 to \$0.85 per hundredweight
- ◆ Cap is 2.4 million pounds per year
- ◆ Retroactive to December 1, 2001
- ◆ Expires September 30, 2005

Dairy Export Incentive and Dairy Indemnity Programs

- ◆ Extended five years

Study of National Dairy Policy

- ◆ USDA Secretary of Agriculture shall conduct a study on effects of national dairy policy on
 - Farm price stability and profitability
 - Nutrition programs
 - Wholesale and retail prices of fluid milk
- ◆ USDA Secretary of Agriculture shall conduct a study on the effects of
 - Terminating all federal programs relating to price support and supply management
 - Granting the consent of Congress to cooperative efforts by States to manage milk prices and supply

Study of Fluid Milk Standards

- ◆ USDA Secretary of Agriculture shall conduct a study on the effects of including a minimum protein content in fluid milk commensurate with SNF content.

The Dairy Market Loss Program will run from December 2001 through September 2005. USDA Farm Service Agency (FSA) will begin producer sign-ups in Mid-June and end on September 30. Payments will be made monthly, no later than 60 days after the month to which they apply. Retroactive payments will be made to producers for the months from December 2001 through June 2002.

In general, target-price deficiency payment programs pay farmers a deficiency payment equal to any positive difference between a **target price** and a defined **market price**. Under the dairy program, the reference target and market prices relate to Boston market Class I prices. The target price is \$16.94 per hundredweight. The market price used to compare with the target price is the announced monthly Class I price at Boston under the Northeast federal milk marketing order. The deficiency payment, which applies only to those months when the market price is less than the target price, is 45 percent of the difference between \$16.94 and the Boston Class I price.

Monthly payments will be made to producers on actual milk marketings up to 2.4 million pounds of milk per year. At this point, it is not clear how the annual cap will be imposed, whether producers will be ineligible for any further payments once they have marketed 2.4 million pounds of milk or whether the cap will be scaled to a monthly equivalent.

For an example of the payment calculation: From December 2001 through May 2002, the Boston Class I price has averaged \$14.96 per cwt. (with a range of \$14.50 to \$15.25), which is \$1.98 per cwt. under the \$16.94 target price. This equates to an average deficiency payment of \$0.89 per cwt. (45 percent of that difference) on milk marketed for those 6 months.

History has shown that price enhancements through deficiency payment programs usually trigger an increase in production. Increased milk production will reduce market prices, and reduced market prices would lower the Boston Class I price relative to the \$16.94 target price, thus increasing the deficiency payments. The payment cap is relatively small when compared to the annual milk production of large herd states. This brings up the question as to whether the larger herds' average cwt. of milk marketed is large enough to offset the reduction in market prices. FAPRI predicts that states with large herd sizes, such as Arizona, California, Florida, Idaho, and New Mexico, will experience net losses on average.

Department Receives Petition from California Dairy Campaign

On May 7, 2002, the Department received a petition from the California Dairy Campaign requesting a public hearing. The petition included proposed changes to Class 4a and 4b pricing formulas, which would indirectly affect the Class 2 and 3 prices. Specifically, the petition had three elements:

1. A reduction in the manufacturing cost allowances to the levels in effect before January 2002,
2. An indexing of the manufacturing cost allowances using the ratio of the appropriate commodity reference price less \$1.70, to the cost of production index, and
3. The addition of a skim whey component to the Class 4b pricing formula.

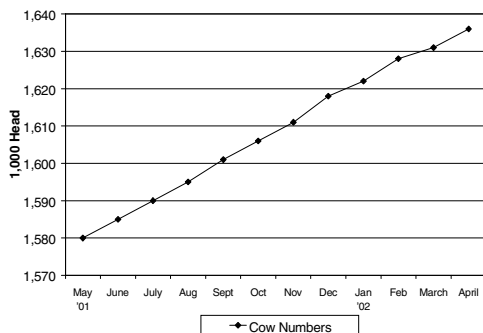
The Department denied their petition for a hearing. The Department accumulates cost data on a continuing basis, including energy components. On May 30, the Department will be meeting with the Dairy

Advisory Committee (DAC), holding discussions on several industry requests received for updated studies and analyses. One of the requests calls for an update of the energy component of dairy manufactured costs. Discussions at the DAC meeting will help the Department assess the direction for future dairy cost studies. After additional manufactured cost data has been reviewed, the Department will evaluate the need for a hearing.

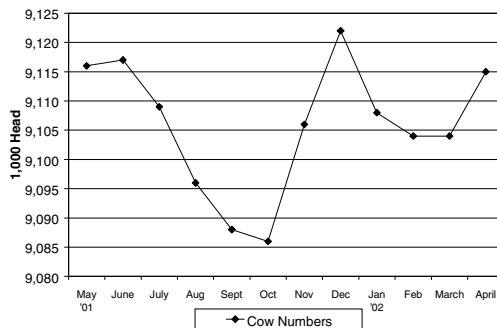
Regarding the differences between California Class 4b and the federal Class III, the policy issues are complex. Factors such as competitive conditions in unregulated geographic areas and Federal Order rules that allow for easy plant depooling must be carefully considered. The differences in Class 4b and Class III prices comprise a portion of policy analysis. USDA has indicated that it may make adjustments to its Class III and Class IV pricing formulas. Until such adjustments are clarified, a public hearing on the difference between the two pricing systems is premature.

Cow Numbers and Milk Production: California/U.S. Comparison May 2001 - April 2002

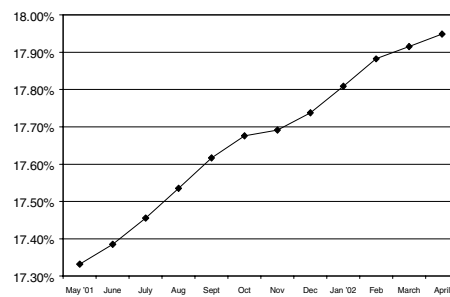
California Cow Numbers
May 2001 - April 2002



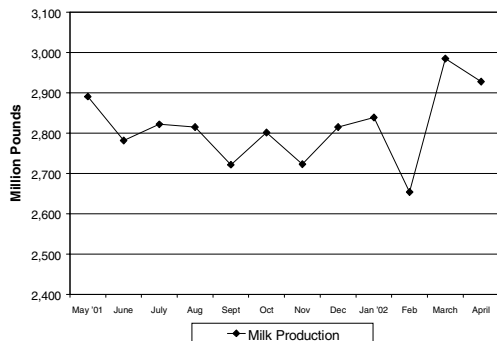
U.S. Cow Numbers
May 2001 - April 2002



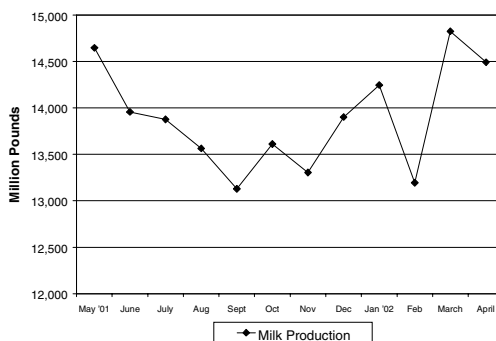
California % of U.S. Cows
May 2001 - April 2002



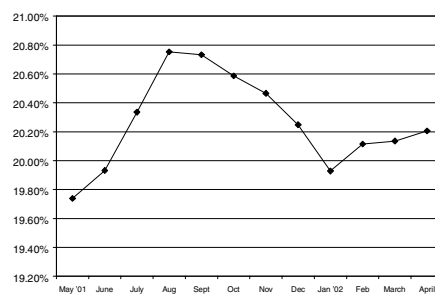
California Milk Production
May 2001 - April 2002



U.S. Milk Production
May 2001 - April 2002



California % of U.S. Milk Production
May 2001 - April 2002



National Dairy Situation and Outlook

Milk Production

Compared to 2001, overall milk production across the U.S. was up 2.9% in April, led by New Mexico's 16.6% growth in milk production (on 34,000 more cows and 55 more pounds per cow). California's production was up 4.9% (on 60,000 more cows and 20 more pounds per cow). All but two of the leading 10 states reported increased milk production.

Arizona showed the largest increase in milk per cow of 165 lbs. to a 2,020 pounds per cow average.

Cow Numbers

For the first quarter of 2002 compared to the first quarter of 2001, U.S. milk cow numbers were down 0.6% to 9.09 million but production per cow was up 2.7% to 5.9 gallons/day; the net effect was a 2.1% increase in milk production to 42.2 billion pounds. USDA projects that for the second quarter of 2002 compared to the second quarter of 2001, U.S. milk cow numbers will be down 0.4% and production per cow will be up 3.0% to 6.1 gallons/day; the net effect a 2.7% increase in milk production.

Milk Prices

Comparing the first quarter of 2002 to the last quarter of 2001, U.S. average milk prices were down \$1.50/cwt. to \$13.00/cwt. USDA projects that for the second quarter of 2002, U.S. average milk prices will be down another \$0.75/cwt.; including a \$0.75/cwt. Class 4b price decrease and \$0.25/cwt. Class 4a price decrease.

Utility Cow Prices

Comparing the first quarter of 2002 to the last quarter of 2001, average U.S. utility cow prices were up \$3/

cwt. to a national average of \$42/cwt. USDA projects that utility cow prices will be up another \$6/cwt. in the second quarter of 2002.

Information from the USDA National Agricultural Statistics Service report and USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook".

Imported Whole Cottonseed

The dairy producer demand for whole cottonseed for dairy feed has increased over the last several months. Imported whole cottonseed is subject to specific requirements. The Department's Feed Inspection Program is responsible for assuring imported whole cottonseed meets all requirements of the commercial feed laws and regulations. Imported whole cottonseed must be shipped under a Certificate of Movement form identifying the origin, licensed feed manufacturer/distributor, destination shipped to in California, and results of aflatoxin testing of the imported lot.

Recently, whole cottonseed has been imported into California from Australia and southeast United States. Cottonseed continues to come in from Arizona as well. Routine sampling and testing by the Feed Inspection Program has detected over tolerance of aflatoxin B1 in some lots of whole cottonseed from the southeast United States. Regulatory actions are taken when such lots are identified. Dairy producers should request that their suppliers of whole cottonseed provide documentation and assurance that the cottonseed they receive is in compliance with the state feed laws and regulations, especially the tolerance for aflatoxin.

If producers have questions or concerns about the feed they receive, they can contact the Department's Feed Inspection Program at (916) 654-0574.

Milk Production Cost Index for California

Month	Del Norte / Humboldt		North Bay		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
<i>Dollars per Hundredweight</i>												
January	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
February	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
March	12.66		13.10		12.39		12.00		13.20		12.3930	
April	12.66		13.10		12.39		12.00		13.20		12.3930	
May	11.43		13.15		12.66		12.39		13.57		12.7255	
June	11.43		13.15		12.66		12.39		13.57		12.7255	
July	11.75		13.50		12.75		12.95		13.91		13.0678	
August	11.75		13.50		12.75		12.95		13.91		13.0678	
September	12.89		13.57		13.04		12.99		14.19		13.2516	
October	12.89		13.57		13.04		12.99		14.19		13.2516	
November	14.23		14.09		12.86		12.69		13.45		12.9463	
December	14.23		14.09		12.86		12.69		13.45		12.9463	

Hundredweight Pool Prices

Milk Mailbox Prices in Dollars per Hundredweight

	August	Sept.	October	Nov.	Dec.	Jan. '02	Feb.
California ¹	\$15.54	\$15.95	\$14.06	\$12.96	\$12.33	\$12.48	\$11.73
USDA ²	\$16.32	\$16.86	\$15.52	\$14.25	\$13.21		

¹ California mailbox price calculated by CDFA.

² All federal milk market order weighted average, as calculated by USDA.

Month	Quota	Overbase
April '01	\$14.65	\$12.95
May	\$15.70	\$14.00
June	\$16.46	\$14.76
July	\$16.35	\$14.65
August	\$16.70	\$15.00
September	\$16.95	\$15.25
October	\$14.71	\$13.01
November	\$13.67	\$11.97
December	\$12.93	\$11.23
January '02	\$13.18	\$11.48
February	\$12.53	\$10.83
March	\$12.37	\$10.67
April	\$12.41	\$10.71

